

# **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CAMDEBOO MUNICIPALITY**

## **Introduction**

1. I have audited the financial statements of the Camdeboo Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, changes in net assets, cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013, as amended) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Camdeboo Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Unauthorised expenditure**

8. As disclosed in note 38.1 to the financial statements, unauthorised expenditure of R20 million (2013: R15 million) was incurred by the municipality during the year ended 30 June 2014.

**Irregular expenditure**

9. As disclosed in note 38.3 to the financial statements, irregular expenditure of R1,04 million (2013: R1, 28 million) was incurred by the municipality during the year ended 30 June 2014. This was as a result of non-compliance with procurement requirements.

**Material losses**

10. As disclosed in note 39.9 to the financial statements, the municipality suffered significant losses of water and electricity. Electricity losses of 7 312 091 kilowatts at a value of R3,8 8 million (2013: 3 496 233 kilowatts at a value of R1, 4 million) were incurred, made up of 95% technical losses and 5% non-technical losses. Water losses of 1 869 110 units at a value of R7, 6 million (2013: 1 687 234 units at a value of R7, 9 million) were incurred, made up of 95% technical losses and 5% non-technical losses.

**Restatement of corresponding figures**

11. As disclosed in note 35 to the financial statements, the corresponding figures have been restated as a result of prior period errors that were identified and corrected during the year ended 30 June 2014.

**Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

**Unaudited disclosure notes**

13. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 1: infrastructure development on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
  17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
  18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
  19. The material findings in respect of the selected development priorities are as follows:

### **Development priority 1: infrastructure development**

#### **Usefulness of reported performance information**

##### **Reported Indicators and targets not consistent with planned indicators & targets**

20. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the annual performance report should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported indicators and targets were not consistent with the indicators and targets as per the approved service delivery and budget implementation plan (SDBIP). This was due to the municipality not appropriately implementing mechanisms to ensure that changes between the initial SDBIP and the revised SDBIP were sufficiently reviewed for reporting purposes, and not ensuring that these changes were appropriately addressed and approved by the council.

##### **Changes to indicators and targets not approved**

21. Section 25(2) of the MSA determines that an integrated development plan (IDP) adopted by a municipal council may be amended in terms of section 34 and remains in force until an IDP is adopted by the next elected council. Therefore, if the IDP is changed during the year, this process has to take place in accordance with the process as prescribed in section 34 of the MSA. A total of 58% of the indicators and targets reported in the annual performance report were changed during the year without adoption by the council. This was due to the municipality not appropriately implementing mechanisms to ensure that changes between the initial SDBIP and the revised SDBIP were sufficiently reviewed for reporting purposes, and not ensuring that these changes were appropriately addressed and approved by the council.

##### **Performance targets not specific**

22. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. A total of 93% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to management being aware of the requirements of the FMPPI but not receiving the necessary training to enable application of the principles.

### **Performance targets not measurable**

23. The FMPPI requires that performance targets must be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to management being aware of the requirements of the FMPPI but not receiving the necessary training to enable application of the principles.

### **Performance indicators not well defined**

24. The FMPPI requires that indicators or measures should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to management being aware of the requirements of the FMPPI but not receiving the necessary training to enable application of the principles.

### **Indicators not verifiable**

25. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produced the performance on actual performance did not exist. This was due to a lack of key controls in the relevant systems over the collection and storage of actual performance information and management being aware of the requirements of the FMPPI but not receiving the necessary training to enable application of the principles.

### **Reliability of reported performance information**

26. The FMPPI requires institutions to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the information presented with respect to the infrastructure development priority. This was due to limitations placed on the scope of my work due to the absence of information systems and the fact that the municipality's records did not permit the application of alternative audit procedures.

### **Additional matters**

27. I draw attention to the following matters:

### **Achievement of planned targets**

28. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 20 to 26 of this report.

### **Adjustment of material misstatements**

29. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the infrastructure development priority. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information.



### **Compliance with legislation**

30. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

31. The performance management system did not provide steps for improvement where performance targets were not met, as required by section 41(1) (d) of the MSA.
32. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
33. Key performance indicators, including input, output and outcome indicators in respect of each of the development priorities and objectives, were not set out in the IDP, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulations 1 and 9(1)(a).
34. The annual performance report for the year under review did not include a comparison of the performance with set targets, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46(1) (b) and (c) of the MSA.
35. The performance management system and related controls were inadequate, as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it was to be conducted, organised and managed, as required by section 38 of the MSA and municipal planning and performance management regulation 7.
36. Measurable performance targets for the financial year with regard to each of the objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1) and 12(2)(e).

### **Financial statements, performance report and annual report**

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
38. Material misstatements identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
39. The 2012/13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
40. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012/13 annual report was tabled, as required by section 129(1) of the MFMA.

### **Procurement and contract management**

41. The composition of the bid adjudication committee was not always in accordance SCM regulation 29(2).
42. Contracts and quotations were awarded to bidders based on preference points that were not always allocated or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and its regulations.
43. Awards were made to providers who are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps had been taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
44. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) as well as the codes of conduct for councillors and for staff members issued in terms of the MSA.

### **Human resource management and compensation**

45. An acting municipal manager and chief financial officer were appointed for a period of more than three months without the approval of the member of the executive council for local government, in contravention of section 56(1)(c) of the MSA.
46. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by minimum competency levels regulation 14(2)(a).

### **Expenditure management**

47. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

### **Conditional grants received**

48. The municipality did not evaluate its performance in respect of programmes or functions funded by allocations from the municipal infrastructure grant and municipal systems improvement grant, as required by section 12(5) of DoRA.

### **Liability management**

49. An effective system of internal control for liabilities was not in place, as required by section 63(2) (c) of the MFMA.

### **Internal control**

50. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## Leadership

51. The municipality did not have systems or controls in place to prevent the irregular expenditure, unauthorised and fruitless and wasteful expenditure from being incurred. The Accounting officer did not ensure compliance with applicable laws and regulations and did not provide an adequate appropriate portfolio of evidence for reported performance against predetermined objectives. There is instability in the key vacancies of the municipality. The lack of approved policies contributed to non-compliance with legislation and inadequate controls.

## Financial and performance management

52. The municipality did not have a proper filing system, proper record management system and an approved record classification system to maintain information that supported the reported performance in the annual performance report. Various documents received for audit purposes lacked quality and completeness, indicating that filing systems at a floor level are a contributing factor to the misstatements identified. The municipality does not apply best practice in its daily and monthly control activities. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

## Governance

53. Management is slow to respond to risk assessment and recommendations by Internal Audit, this had a negative impact on the effective of the Internal Audit. The audit committee complied fully with the MFMA requirements, however the slow response by management had an impact on the effectiveness of the audit committee. There was no effective oversight review over financial information, compliance with laws and regulations and reporting on predetermined objectives, as recurring findings in these areas were identified during the year. This is a critical area for the all oversight bodies to address going forward.

*Auditor General - SA*

East London

28 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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